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Vanderlip, Frank Arthur

Address delivered at the
Aldine Club

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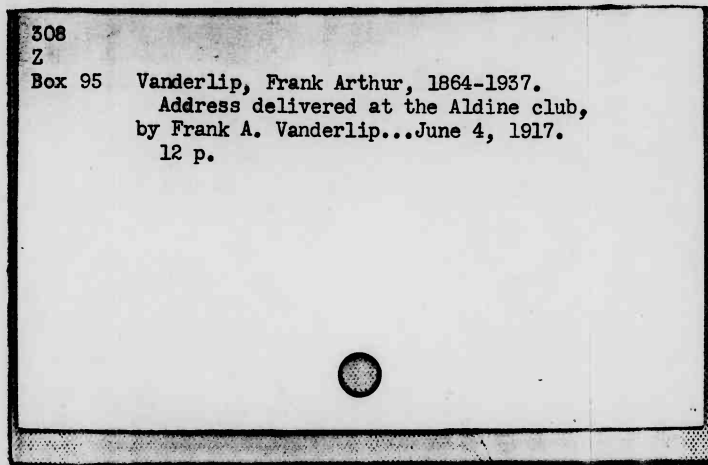
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ADDRESS DELIVERED AT THE
Aldine Club

BY

FRANK A. VANDERLIP

President of the National City Bank, New York City

JUNE 4, 1917

115
C.B. Dec. 8, 1922

WAR AND BUSINESS.

Mr. Chairman and Gentlemen:

WE ARE in war, and it is going to cost a great deal of money.

Now, those are two very simple propositions, and this country hasn't yet grasped them in their full significance. Our streets are the same, our lives are the same, our luncheons are the same—we haven't got into our minds, into our intelligence yet, the view that permits us to fully grasp this tremendous catastrophe that the world is passing through. Here in New York we feel that we have grasped it more or less. We believe that we understand it, but we are inclined to admit that further west they do not so clearly grasp the significance of what has happened.

I am not so sure that this audience of men intimately related to the business of a seaport as close as anybody can be in America to what is going on in Europe, are fully awake to what the world is passing through, and to what part we have got to play.

Not until the picture of France, beaten down to her knees, is burned into your souls will you be able to understand what this war is.

The picture of England, the hungry England, an England that may be a gaunt and starving England, is the thing that you must understand. Too

many of us have a notion that this war is off on another continent, fearful, of course, terrible, but so far away, being fought in places whose names we are hardly familiar with and find difficulty in pronouncing—that it is all so far away that we are a long way from getting into it.

Now, I tell you, that our armies and our forces are going to be engaged "somewhere in France" or they will be engaged somewhere in the United States in this same war. It is up to us to get into this situation with all the strength that a complete national organization will permit. And that's what war is—a national organization. Not over 25 per cent. of the forces that are necessary in prosecuting a war are the military forces. At least 75 per cent. are those industrial, transportation and other forces that make it possible to keep the military forces in operation. We have got to have the most complete organization of the industries of this country for the one great business of this country, which is now "war." That is going to mean a disorganization to some other kinds of business, and some of you are perhaps fearful in regard to that. You can't look happily into the future because of the effect it is going to have on your business, and I think that perhaps you are warranted, if you are in a line of business that is a luxury, in being concerned about its future.

You ought to be concerned about its future, if we as a people are clear-eyed in seeing what is our

duty. We have got to raise \$2,000,000,000 immediately. We have got to raise \$7,000,000,000, and you will find that Congress yesterday discussed an authorization of still an additional billion dollars to take the place of some of the taxes that they do not want to impose.

Now, we are facing a gigantic operation, so gigantic that few of us comprehend that it must be done in a different way from any financial flotation that we have ever had. We don't, some of us, differentiate, don't see the great difference between floating a billion-dollar loan and several billion-dollar loans, and floating those usual amounts of securities that the investment market deals in.

There is always a margin of idle investment funds, so called because they are the funds that people have in banks awaiting employment. They are temporarily employed by the banks, but they are at the command of the people who make the deposits, and they may be withdrawn for fresh investment, and that is the usual method of the investment market. But here we have a demand for \$2,000,000,000. Now, \$2,000,000,000 is a very large sum, pretty hard for any of us to comprehend. There isn't \$2,000,000,000 of cash in the banks, in all the vaults in the country. All the savings banks in the country have \$5,000,000,000.

Now, everything that we have saved is really already invested. There is this little narrow margin that I am speaking of that is only temporarily in-

vested while you have it on deposit. The \$250,000,000,000 that the country is reckoned as amounting to is wealth in the form of fixed investment in farms, railroads, factories, houses, stores—fixed forms of investment.

Now, it doesn't make any difference how rich we are. The task we have got to perform is the task of current accomplishment. We can't use a railroad to fight this war in France, we can't subscribe a house and lot to this loan. This war has got to be financed not out of the savings of the past, but out of the savings of the future. That is one of the principles that must be recognized and must be acted upon. There is, of course, a certain amount that is possible of investment, but we have now got into figures of gigantic proportion—we have got beyond that and we have got to draw on the future capacity to save. We need the money now, we can't wait until the future for it, and so we must finance by creating bank credits.

You men must now measure your subscription to this loan by the idle money you have. The measure is by what amount can you save, let us say, in the next year. That is where your duty lies when investing in this loan—not what you have on hand, neither what you might accumulate, but by saving. The man who saves \$1,000 that he would otherwise spend—that man is rendering a greater service than you who put that thousand dollars in the bank. The loan has got to be financed from the savings of the

future and made immediately. Men must borrow and subscribe to this loan. Now, how are they going to pay off what they are borrowing? That means economy, and that is why I have to say to you who are engaged in those lines that are not necessary to this great business of war, that we may look for disorganization; we ought to look for disorganization and lighter business.

You cannot give this nation \$7,000,000,000 of spending power and have the people spend as much as they have before. We have got to face the necessity of economy, for these two reasons: the reason that we must accumulate for the cost of this war, and for the greater reason that we must not employ labor in unnecessary things in competition with the Government.

Now this looks like a very sober outlook to you. In some ways it is, but on the other hand you are facing a situation in which you are going to see the greatest activity, the most complete employment of labor, the highest wages, the greatest wage fund to distribute, that the country ever knew. That means great business, but it means a somewhat different business than we have been engaged in. It means a business along the necessities of this great national business, war. There must be economies that will release men from the labor of making unnecessary things in order first, to provide the million soldiers that we must have, and second, to provide the many million men who must do the work. So,

while I see a different business, I think I see the most active business and the greatest distribution of wages that we have ever known.

The very necessity that we must finance this and the succeeding loans with an expansion of bank credit means, I would not say "inflation," if by the word inflation you mean dangerous expansion, but it does mean a very great expansion. It probably means some of the phenomena that usually mean inflation, rising prices of commodities. That certainly has been the course for some time, but for somewhat different reasons.

Perhaps in the other countries that have entered the war the general cost of living has greatly increased. Living to-day in England is exactly double the cost of living there in August, 1914. Of course, those same conditions will not apply here, because there will not be that necessity. But the inflation seems to be a foregone necessity and will lead to higher prices of commodities.

Now, a word about the loan itself and a word about your duty toward it. You are not being asked to make any sacrifice when you are asked to subscribe to this loan; you are asked to take advantage of a financial opportunity. It is unnecessary to say that you are presented with the premier security of the world, the finest piece of paper in existence, but it has got some peculiar features attached to it that we have never seen attached to any piece of investment paper in America. They are features

that are bound to, and are certain in my opinion to make it sell at a premium when this war is over.

The fact that these bonds are convertible into similar bonds bearing higher rates whenever the country is under necessity means that automatically these bonds will be kept close to or at par. That is very easy to see. The Government will, if the war goes on, have to make subsequent issues. When they are made they are to be made at par. A rate will have to be fixed that will float the matter. The moment that rate is fixed the rate goes up on these bonds you are asked to take and they will automatically go up to par. And any security that remains at par during the progress of this war will certainly sell above par at its conclusion.

The interest rate may seem to you low, but why should one calculate fine fractional points of percentage in a situation so desperately important as this situation is? While the investment, I believe, is surely the soundest and certainly is likely to be as profitable as any investment that you are likely to make, still you should wave all that aside; it is almost hardly worth considering when you think of the real duty that is imposed upon all of us to support the Government in this effort to make the world "safe for democracy."

Now, that is what we are doing, and democracy and Prussian autocracy cannot live side by side in the world. Just as true as when Lincoln said "This nation cannot exist half slave and half free," it is

recognized by whole nations that civilization cannot exist half militarism and half democracy. It is going to be one thing or the other, and to-day the greatest hope, the greatest protection of civilization lies in the prospect of what America can do.

France is beaten to her knees. She can hold out if she can be fed, because to her last man she will hold out to the last breath. We have got to feed England, and we must recognize that no longer can we look to Russia for a vigorous military campaign. What her future is no one can say, but when you see her military fortress in the hands of the Socialists, whose picture is a Russia divided into small democracies; when you see an army voting for its generals, when you see such situations exist in that great country to-day, you may feel confident, as I still do, that there will be no separate peace, but you can't feel confident that there will be a vigorous military policy.

Should there be a separate peace it will be a world catastrophe. There are more than 1,000,000 prisoners of the Central Powers in Russia who would be released to fight for Germany. A separate peace would open those storehouses of food that are in Russia and that only the organization of transportation can make available, and will leave those to Germany. It will be a catastrophe that is not hard to meet.

Now, the problems and tasks that we have got are first, to feed France and England. That means

the building of a vast fleet of ships. It means something more—it means the solving of the submarine menace. It looks as if we are going to solve it, but even then we must build many ships if we are to convey to the shores of Europe the billion bushels of grain that Mr. Hoover says will be necessary to carry them through another year.

If the efforts of this country can so augment the air service as to give the Allies mastery of the air, I am told the war could be ended in ninety days. A mastery of the air puts out the eyes of the enemy. The firing is all gauged to-day from the air, and a mastery of the air would end the war. There is one of the great services we can render. We have got to send men, and men by hundreds of thousands, if we can get them over there and support them.

We have got to organize the whole nation for this supreme effort, and I am as confident as I could be of anything in the world that if we are not successful in this effort we will be subscribing for something besides a Liberty Bond. It will be an indemnity bond.

Now, as to the amount of it: We have been having hard work to attempt to realize \$2,000,000,000, but that will look small compared to what the demand would be upon us with Germany the victor of the war. Now, this isn't a fancy picture; it is a picture that is in the German mind without any question, and it is a picture that will need to be de-

stroyed by the greatest display of strength that we have got. But I don't look with pessimism upon the whole situation.

There are a lot of by-products of the war that are going to be very desirable, that are going to do us a great deal of good. In many ways we have needed this war. We have grown to be a pretty careless, spendthrift, easy-going nation. The war is going to do us good in that respect. It is going to teach us, nation-wide, the lesson of thrift, and that may start springs of wealth that will be worth all the war will cost, if, instead of a spendthrift nation, we become a thrifty nation. But more important, it is going to teach us more of our duty as citizens. We are going to come more to recognize the duties of citizenship when we make the great sacrifices that we are going to make to make democracy safe, and that will be worth to us all that the war will cost.



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